

VZCZCXRO8177  
RR RUEHLH RUEHPW  
DE RUEHIL #2107/01 1650057  
ZNR UUUUU ZZH  
R 130057Z JUN 08  
FM AMEMBASSY ISLAMABAD  
TO RUEHC/SECSTATE WASHDC 7352  
INFO RUCPDO/DEPT OF COMMERCE WASHDC  
RUEHRC/DEPT OF AGRICULTURE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEHRC/USDA FAS WASHDC 4226  
RUEAIIA/CIA WASHDC  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL  
RHMFISS/CDR USCENTCOM MACDILL AFB FL  
RUEKJCS/SECDEF WASHINGTON DC  
RUEHBUL/AMEMBASSY KABUL 8719  
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RUEHKP/AMCONSUL KARACHI 9884  
RUEHLH/AMCONSUL LAHORE 5628  
RUEHPW/AMCONSUL PESHAWAR 4374

UNCLAS SECTION 01 OF 02 ISLAMABAD 002107

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EAGR](#) [ENRG](#) [ELAB](#) [PREL](#) [PGOV](#) [PK](#)

SUBJECT: PAKISTAN'S 2008-09 BUDGET: FOCUS ON DEVELOPMENT AND  
AGRICULTURAL REFORM, PART THREE OF THREE

REF: ISLAMABAD 2061

¶1. (SBU) Summary: During the official announcement of Pakistan's fiscal year 2008-09 budget proposal to Parliament, Finance Minister Naveed Qamar described poverty reduction as the "main plank" of the Government of Pakistan's (GOP) economic policy. Qamar announced a proposed development strategy that aims to increase funding to Pakistan's poor. The GOP will provide the nation's poorest households with a ration card, known as the Benazir card, to buy food and services at a discount. Development assistance in this year's budget seeks to protect rural and poor populations from increasing prices and falling real incomes, focusing on cash transfers, vocational training and microfinance. Recognizing that agriculture remains the backbone of Pakistan's economy, the GOP will increase funding for agricultural infrastructure and finance, as well as increasing subsidies on fertilizer. This cable is the third in a series of three outlining the GOP's proposed fiscal year 2008-09 budget. End Summary.

POVERTY REDUCTION AND DEVELOPMENT ASSISTANCE

¶2. (SBU) Describing poverty reduction as the "main plank" of the Government of Pakistan's (GOP) economic policy, Finance Minister Qamar announced a development strategy in the proposed FY2008-09 budget that aims to reduce poverty through increased program assistance, income support, and the provision of low-cost housing. Calling public investment an "important engine of growth," Finance Minister Qamar reported that the budget contains a Rs 549.7 billion (USD 8.13 billion) development plan, up five percent from Rs 520 billion (USD 7.69 billion) last fiscal year. The program intends to "protect vulnerable groups" by increasing incomes through a targeted program of cash transfers, aiming to bring about a "meaningful change in social indicators." Upon taking office, Prime Minister Gilani promised to add an additional one million housing units to the national housing stock; the FY08-09 budget provides Rs two billion (USD 29.56 million) to expand housing construction.

¶3. (SBU) The GOP proposes to launch the Benazir Income Support Program, named after former Prime Minister Benazir Bhutto, to provide Rs 50 billion (USD 739 million) in direct cash transfers to low income groups. Over four million households will likely qualify. Each qualifying household will be given Rs 1,000 per month (USD 14.78) for the purchase of basic agricultural commodities. The

GOP will provide all eligible households with a "Benazir Card" to be used for food purchases and eventually, for vocational skills training, medical care and employment assistance. This food assistance comes in addition to a nation-wide system of 6,000 utility stores that provide subsidized food to Pakistan's poor and rural communities.

14. (SBU) The budget contains a number of human resource development and employment projects. Rs 28.4 billion (USD 420 million) will be allocated to the People's Works Program to fund small rural infrastructure development projects to increase employment opportunities. The GOP will also establish a Human Resources Development Commission to monitor national unemployment and coordinate human resource development programs. The GOP has also allocated Rs 1.6 billion (USD 23.65 million) to continue a National Internship Program to provide enhanced vocational training to 30,000 students that have completed at least 16 years of education. Finance Minister Qamar announced that the GOP would direct the National Bank of Pakistan to increase credit access for small business loans. The GOP expects to provide rural microfinance loans to three million Pakistanis by 2010.

#### AGRICULTURAL SECTOR REFORM

15. (SBU) Recognizing that agriculture remains the backbone of Pakistan's economy, Qamar reported that the agricultural sector has been neglected over the last eight years. "This was an agricultural country which has been handed back to us with famine-like conditions," he declared. Citing insufficient incentives as a reason

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for the decline in agricultural sector growth, the Finance Minister announced a number of initiatives aimed at promoting increased investment in agriculture. The GOP will waive the custom duty on the importation of rice seeds as well as grain harvesting machinery and equipment. A mandatory five percent federal excise on crop insurance will also be repealed, freeing up additional capital for investment. The government will also subsidize the import of bulldozers to increase cultivatable area and provide a series of cold storage facilities to better preserve crops for export.

16. (SBU) Pakistan's fiscal year 2008-09 budget aims to improve agricultural infrastructure and decrease the cost of production inputs. The budget provides Rs 75 billion (USD 1.11 billion) for the improvement of water and irrigation resources, including dams, irrigation systems and canals. In addition, wheat flour and ghee production facilities will be guaranteed at least 18 hours of power, despite nation-wide power shortages. The GOP will seek to lower the cost of fertilizer by raising total Government fertilizer subsidies from Rs 25 billion (USD 370 million) to Rs 32 billion (USD 473 million), more than doubling the subsidy on DAP (Diammonium phosphate) fertilizer from Rs 470 per bag (USD 6.95) to Rs 1,000 (USD 14.78). Fertilizers will be exempted from all sales taxes and duties, decreasing government revenue by an estimated Rs 6 billion (USD 88.7 million).

17. (SBU) The Finance Minister reported that the budget will formalize an increase in the government purchase price of wheat. GOP brokers currently procure wheat at Rs 625 (USD 9.24) per 40 kg bag, despite the fact that wheat trades on the Pakistani open market at Rs 800 per 40 kg bag (USD 11.83). The FY08-09 budget maintains the Rs 625 purchase price, thus failing to raise prices to meet domestic market prices (Reftel). The Government of Pakistan plans to review the support price for next year's wheat crop to adjust to global market conditions and the production price of wheat. Qamar also announced the Prime Minister's "White Revolution" to provide an additional Rs 1.5 billion (USD 22.2 million) to the livestock and dairy industries. The initiative will target programs for meat production and development, increased veterinary services for livestock, and the establishment of an integrated plant and animal health inspection facility. The GOP will also fund improvements at animal health laboratories nation-wide.

18. (SBU) The budget seeks to increase the availability of credit for agricultural producers, allocating an additional Rs 30 billion (USD

443 million), bringing total annual agricultural credit to Rs 160 billion (USD 2.37 billion). The GOP also seeks to increase foreign investment in the sector to improve productivity and expand the amount of cultivatable land. While details were not provided in the Finance Minister's speech, the GOP will set aside tracts of land for foreign agricultural investment.

19. (SBU) Comment: While it is unsurprising that the Pakistan Peoples Party (PPP)-led government increased development spending and programs targeting the poor, a five percent rise in development spending with inflation running at twelve percent translates to a real decline in development projects. The budget is dependent on cash transfers and the nationwide "Benazir card" system will be difficult to implement and will most likely run over the budget as poverty levels increase on the back of rising global commodity prices. Creating a more vibrant agricultural sector remains crucial to both poverty alleviation, increased exports, and Pakistan's economic growth. The GOP is banking on a considerable increase in agricultural growth and productivity to meet its FY 2008-09 GDP growth target. Increased infrastructure funding and credit access are steps in the right direction. However, additional steps are necessary to improve the management of the agricultural sector, including realistic price mechanisms that accurately reflect global and domestic market prices. End Comment.

PATTERSON